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SIPDIS

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SUBJECT: A SNAPSHOT OF THE GREEK ENERGY SECTOR:
AMBASSADOR'S MEETINGS WITH GREEK OIL AND GAS CEO'S

11. (U) SUMMARY: Ambassador Ries met with the Chairman of the Public Gas Corporation (DEPA) on March 21, and the CEO and Chairman of Hellenic Petroleum (HP) on March 22. DEPA is undergoing capital restructuring while the GoG has already gradually sold its shares of HP. DEPA is part of a joint effort to build a gas interconnector linking the Greek and Turkish gas networks to that of Italy. DEPA's Chairman was optimistic about the project's progress despite the recent announcement by Turkey's BOTAS that, for procurement process irregularities, it had canceled the construction tender for the Turkish portion of the trunk supply line and will start the process anew. HP's Chairman confirmed that Greece, Bulgaria, and Russia are scheduled to sign a final memorandum of understanding concerning the Burgas-Alexandropoulis pipeline on April 15. Despite a ten-year delay, the project appears to have regained momentum. HP's CEO maintained that the Burgas-Alexandropoulis pipeline will be complementary to -- not competitive with -- the Baku-Tbilisi-Ceyhan pipeline. In addition, HP is working to consolidate its downstream operations in the Balkans and expand its upstream operations in North Africa and the Mediterranean. END SUMMARY.

PUBLIC GAS CORPORATION

12. (U) In a March 21 meeting Ambassador Ries and Raphael Moissis, Chairman of the Public Gas Corporation (DEPA), discussed current developments in the natural gas industry. Although originally a wholly-owned subsidiary of Hellenic Petroleum, today DEPA is owned by HP (35%) and the GoG (65%). DEPA is currently undergoing capital restructuring as part of the larger privatization efforts occurring throughout the Greek energy sector. Once the process is complete, DEPA's ownership will be divided between private investors (34%), HP (35%), and Greece's Public Power Corporation (30%).

13. (U) DEPA currently owns a 51% share in three gas distribution companies, which distribute gas to households and small industries in Attica, Thessaly, and Thessaloniki. DEPA plans to expand by forming three new gas distribution companies covering Central Greece and Evia, Central (Greek) Macedonia, and Eastern (Greek) Macedonia and Thrace. Because of an exemption from the EU energy directive, the three existing companies have a thirty-year right of exclusivity. DEPA intends to request a similar exemption for the three new companies.

TURKEY-GREECE GAS INTERCONNECTOR

14. (U) DEPA, Turkey's BOTAS, and Italy's Edison have teamed together to build a gas interconnector project to link the natural gas networks of Greece and Turkey to that of Italy by 2006. Moissis estimated the total cost -- including the Turkish, Greek, and trans-Adriatic portions -- at 1 billion euros. The interconnector will link to Turkey's existing gas grid to move gas from the Caspian and Russia (from the Blue Stream line) across Greece and under the Adriatic to Brindisi. Once completed, the pipeline will be able to carry up to 11 billion cubic meters (bcm) per year. There are already agreements between DEPA and BOTAS, the GoG and the GOT, and DEPA and Edison. There is not yet an agreement, however, between the GoG and the GoI. The trans-Adriatic portion would be jointly owned by DEPA, BOTAS, and Edison -- but they are open to having additional investors become joint owners. According to Moissis, DEPA and BOTAS will connect the Greek and Turkish grids even if the trans-Adriatic portion is delayed or canceled.

15. (U) Although construction was due to begin in Turkey in April, Moissis informed us that the Turkish tender recently was canceled. He explained that Turkey's Peker, which was in the consortium that submitted the best bid, was part of the recent corruption investigation in Turkey's energy sector. Therefore, BOTAS canceled the tender and will start anew. It is unclear how long this set back will delay the interconnector's construction.

THE LINK TO ALBANIA

16. (U) According to the current plan, the interconnector will go in a southwest direction from Kipi in northeastern Greece to Perdika in northwestern Greece. A direct east-west route would shorten the interconnector but it would cut across southern Albania. Although the GoA is eager to pursue this alternative route, Mr. Moissis stressed that Edison does not believe it is a bankable option because the investors will not be able to secure Italian export credit if the interconnector passes through Albania and the financing terms would accordingly be much worse because of the increased risk.

HELLENIC PETROLEUM

17. (U) On March 22, Ambassador met with Hellenic Petroleum's CEO, Dr. Panos Cavoulacos, and Chairman, Timos Christodoulou to discuss HP's operations in Greece and abroad. HP was established in 1988, carved out of the former state-owned Public Petroleum Corporation. The GoG has gradually sold its shares of HP. Today the GoG holds 35.5% of HP shares while the Latsis Group holds 32.9%. Minister of Economy and Finance Alogoskoufis announced in August 2004 that the GoG has no intention of selling any more of its stake in HP. Three-fourths of HP's revenues derive from its four oil refineries (three in Greece and one in Macedonia) which cover 72% of Greek market requirements. While the Macedonia refinery must eventually close because it does not (and cannot) meet EU specifications, HP is planning a 500 million euro expansion of one of its refineries in the Athens area.

BALKAN OPERATIONS, NORTH AFRICA PROSPECTS

18. (U) According to Mr. Christodoulou, HP has "all the advantages of a private company but all the disadvantages of a public company." When the GoG was the majority shareholder, HP expanded operations for the sake of political objectives. Today, however, HP is attempting to consolidate its operations and run for profits. Despite its investments totaling 350 million euros in southeastern Europe, Dr. Cavoulacos explained that HP has had "little return." HP is present in the downstream market in eight countries: Albania, Bulgaria, Cyprus, Georgia, Greece, Macedonia, Montenegro, and Serbia. HP would like to expand operations in Bulgaria and Serbia, but consolidate operations in Albania, Macedonia and Montenegro. In the latter countries, HP has faced considerable rule of law problems. Although HP's upstream operations are extremely limited, it would like to partner with larger companies to expand its efforts. In particular, HP is looking for production or exploration investment opportunities in North Africa and the Mediterranean.

BURGAS-ALEXANDROPOULIS PIPELINE

19. (U) In November 2004 Greece signed a memorandum of understanding with Bulgaria and Russia to cooperate on the construction of an oil pipeline from the Bulgarian port of Burgas on the Black Sea to Alexandroupolis on Greece's northern Aegean coast. Despite a ten-year delay, the project appears to have regained momentum. The signing of the final MOU is scheduled for April 15. If completed, the 700 million euro project would relieve tanker pressure on the Bosphorus by reducing average tanker transit delay by 4.5 days by 2008. Dr. Cavoulacos maintained that the Burgas-Alexandroupolis pipeline would be complementary to -- not competitive with -- the Baku-Tbilisi-Ceyhan pipeline. The Burgas-Alexandroupolis pipeline, according to Dr. Cavoulacos, will be cost efficient because of its short length and the fact that very large crude carriers (VLCC's) could load at Alexandroupolis, making shipment to U.S. markets economic. He added that the pipeline parties would welcome the participation of U.S. financial institutions and investors.

10. (U) COMMENT: The CEO's of both DEPA and HP would like to expand cooperation with the U.S. Dr. Cavoulacos noted in particular that GE is one of two finalists to run HP's new electricity plant in Thessaloniki and that HP is eager for U.S. financial institutions to participate in the Burgas-Alexandroupolis pipeline. Ambassador commented that U.S. companies would likely be interested in any pipeline that is commercially viable. Both CEO's acknowledged that liberalization in the Greek domestic energy market is inevitable (and required by EU directives), yet recognized that public-sector unions still have significant influence and constrain GoG enthusiasm. END COMMENT.
Ries